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FM AMEMBASSY YEREVAN  
TO RUEHC/SECSTATE WASHDC 8883  
INFO RUCNCIS/CIS COLLECTIVE  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC

UNCLAS SECTION 01 OF 03 YEREVAN 000226

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [AM](#)

SUBJECT: SHIFTS AMONG LARGEST TAXPAYERS FOR 2008

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#### SUMMARY

1. (SBU) The list of Armenia's 300 largest corporate taxpayers for 2008 provides an early indication of the impact of the global financial crisis, with the industrial firms previously at the top of the list displaced by three service companies. Tax payments by the banking sector increased, and the GOAM's widely advertised crackdown on the shadow economy also appears to have resulted in some oligarchs paying more taxes than in the past. The GOAM's campaign against a prominent opposition oligarch has arguably cost it several million dollars in lost tax revenues. End Summary.

#### VIVA TELECOM SECTOR!

2. (U) Leading the 2008 list of the 300 largest taxpayers was K-Telecom (dba Vivacell-MTS), which paid taxes of AMD 30.8 billion (USD 100 million), double the amount it paid in 2007. K-Telecom, which was established in 2006 and purchased by Russia's MTS in 2007, has become the country's largest mobile phone provider in a short period of time, with a 78 percent market share. Armentel, Armenia's legacy telephone monopoly, ranked third with AMD 15.1 billion (USD 49.5 million), though its payment was AMD 5.6 billion, or 27 percent less than in 2007. French FTA Telecom (Orange trademark), which in 2008 won the international tender for the third cell phone operator's license and will start operation in Armenia in the fall of 2009, has already paid AMD 2.4 billion (USD 7.8 million) in various taxes and duties, occupying the 25th place in the list.

3. (U) The Armenian-Russian natural gas operator ArmRosGazprom was the second largest taxpayer in 2008. It paid AMD 17.8 billion (USD 58.5 million), AMD 2.2 billion less than it paid in 2007, when it ranked third.

4. (U) Taxes paid by two large fuel importing companies increased (6th and 7th place correspondently), in a year when fuel prices peaked in August and then dropped by approximately 30 percent by the end of the year. Armenian Railways, which has been transferred to concessional management under Russian Railways, ranked eighth, with taxes paid equal to AMD 5.3 billion (USD 17.3 million). Last year the company ranked 33rd.

5. (U) Rounding out the top ten taxpayers are Armenian Electrical Networks (AMD 5.2 billion or USD 17 million) and Grand Tobacco (AMD 4.5 billion or USD 14.8 million), the latter owned by Hrant Vardanian, another wealthy businessman (whose son is a Member of Parliament).

#### MINING SECTOR IS DOWN

6. (SBU) Most of the large companies in the mining and metallurgy

sector, which typically accounts for 40 percent of Armenia's exports, paid fewer taxes than in 2007. Zangezur Copper and Molybdenum Plant, owned by the German Cronimet Company, was Armenia's largest taxpayer for the last several years, but fell to fourth this year at AMD 14.4 billion (USD 47 million), less than half the amount it paid last year. Agarak Copper and Molybdenum Factory ranked 42nd and paid AMD 1.8 billion (USD 5.9 million) compared to AMD 2.2 billion last year. Ararat Gold Recovery Company, which was recently sold to Russian GeoProMining company, paid AMD 642 million (USD 2.1 million), approximately half the amount it paid a year ago. Canadian Deno Gold Mining also paid AMD 202 million, or 13 percent less than in 2007. However, despite existing difficulties in the mining sector, another large mining company--Armenian Copper Program (ACP)--paid AMD 61.6 million, or 11.4 percent more than in 2007. The drastic fall in international prices for copper and molybdenum in the latter part of 2008 has forced most of the mining and metallurgy companies to cut production volumes, and some may close down if the economic situation does not improve.

#### BANKING SECTOR IN GOOD HEALTH

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¶7. (SBU) Despite the world financial crisis, most of the commercial banks in Armenia paid more taxes in 2009. ACBA-Credit Agricole Bank, 15 percent owned by French Credit Agricole S.A., is the largest taxpayer in Armenia's banking sector, occupying 28th place (AMD 2.3 billion, or USD 7.5 million). Ardshininvest Bank ranked in 32nd place (AMD 2.1 billion, or USD 7 million). Armeconombank, owned by MP and fugitive oligarch Khachatur Sukiasian, ranked 80th place (AMD 949.4 million, or USD 3.1 million, about 8 percent more than last year), despite the fact that all state organizations removed their accounts from the bank. Banks that paid fewer taxes in 2008 include HSBC, Inecobank and Areximbank, all of which paid several hundred thousand USD less compared to 2007.

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#### LITTLE OBVIOUS PROGRESS WITH OLIGARCHS

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¶8. (SBU) Tax payments by Armenia's leading oligarchs show no clear pattern regarding improved tax compliance. Companies belonging to MP Samvel Alexanian (aka Lfik Samo) in 2008 paid AMD 5.3 billion, or 58 percent more in taxes than in 2007. His newly-formed Alex-Grig ranked fifth on the list, paying AMD 12.5 billion (USD 41 million), while his Salex Group paid AMD 1.9 billion (USD 6.2 million), compared to AMD 9.1 billion in 2007. (Note: Alexanian controls most of the sugar and cooking oil importation in the country. It appears that he transferred much of Salex' operations to Alex-Grig in order to take advantage of a provision in the Law on Profit Tax that allows companies with foreign investment equal to USD 1 million or more a two-year exemption from the profit tax. This provision will expire at the end of 2009. End Note).

¶9. (SBU) Companies belonging to Gagik Tsarukian (MP, Head of the Prosperous Armenia Party) ranked much lower on the list, despite Tsarukian's status as one of Armenia's wealthiest persons. His Ararat Cement ranked 48th place, with total taxes paid equal to AMD 1.6 billion (USD 5.3 million), AMD 289.3 million, or 22 percent more compared to last year. Some of his other companies, including the trio of "Multi Lion," "Multi Group" and "Multi Gas" paid a total of AMD 922 million (USD 3 million) taxes, AMD 17.1 million less than in ¶2007. (Comment: While these are private companies whose revenues are not publicly disclosed, the tax payments by Ararat Cement and Multi Gas would appear to be much lower than expected. Ararat Cement is one of two dominant cement producers and construction, despite the economic slowdown that began in late 2008, has been one of the primary drivers of Armenia's economy (27.1 percent of GDP). Similarly, as gasoline retailing and distribution is a business dominated by a small group of companies, tax payments by Multi Gas should arguably be considerably higher. End Comment).

¶10. (U) Armenia's other cement plant, MIKA Cement, owned by Mikhail Baghdassarov, paid AMD 493.5 million (USD 1.6 million), more than doubling the amount it paid in 2007, and ranking 156th position.

Some of Baghdassarov's other companies also paid higher taxes compared to 2007. Armavia, Armenia's privately-held national airline principally owned by Baghdassarov, ranked 96th, with tax payments of AMD 824 million (USD 2.7 million), compared to AMD 205.9 million in 2007 (291st). Baghdassarov's MIKA Corporation, which imports and retails gasoline and aviation fuel, ranked 37th, paying AMD 1.9 billion (USD 6.3 million).

#### OTHER BUSINESSES

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¶11. (U) Other prominent businesses on the list include Armenian Nuclear Power Plant, 13th place (AMD 3.4 billion or USD 11.2 million), Armenian International Airports, 30th place (AMD 2.3 billion or USD 7.4 million), Coca-Cola Hellenic Bottling Company, 22nd (AMD 2.5 billion or USD 8.1 million), and Yerevan Brandy Factory (a Tsarukian-owned company), 21st (AMD 2.5 billion or USD 8.2 million).

#### RETALIATION REDUCES REVENUES?

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¶12. (SBU) One taxpayer whose ranking fell significantly from 2007 is MP and fugitive oligarch Khachatur Sukiasian, who controls the Sil Group of companies. In apparent retaliation for Sukiasian's support of the Presidential candidacy of Levon Ter-Petrossian, the GOAM in 2008 not only withdrew its funds from Sukiasian's Armeconombank, it also employed the tax and customs services to strip the assets of the two most lucrative Sukiasian-owned companies: Pares-Armenia, exclusive distributor of Philip Morris products; and Bjni Mineral Water Company.

¶13. (SBU) In 2007 Pares-Armenia paid AMD 7.6 billion in taxes (about USD 22 million), ranking it eighth on the list. In 2008 Pares paid AMD 2.8 billion (USD 9.1 million), 64 percent less, and placing 19th in the 2008 rankings. The Sovrano Group, believed to have taken over the Philip Morris distributorship, paid AMD 1.7 billion (#45), up from AMD 943 million in 2007. Overall, tax payments by Philip Morris distributors fell from AMD 7.6 billion in 2007 to AMD 4.5 billion in 2008. In 2007, Bjni paid AMD 329.1 million in taxes; in 2008, after its assets were seized in October and operation suspended (the company was sold at auction by the GOAM in February 2009), it paid AMD 364.1 million (USD 1.2 million), despite having been in operation less than a full year.

#### TOP TEN TAXPAYERS - THIS YEAR AND LAST

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¶14. (U) Company Tax Paid 2007  
2008(mln.USD) 2007(mln.USD) Ranking

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¶1. K-Telecom	100.7	45.3	4
¶2. ArmRusGasprom	58.5	58.6	3
¶3. Armentel	49.5	60.8	2
¶4. Zangzur Copper and Molybdenum	47.0	98.3	1
¶5. Alex Grig	41.0	-	-
¶6. City Petrol Service	37.4	29.4	5
¶7. Flash	34.1	27.9	6
¶8. Armenian Railways	17.3	4.7	33
¶9. Armenian Electrical Networks	17.0	14.4	9
¶10. Grand Tobacco	14.8	10.5	12

NOTE: different exchange rates are used for 2007 and 2008. END NOTE.

#### COMMENT

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¶15. (SBU) Although the order was reversed, the top four taxpayers were the same in 2007 and 2008, and the top 10 from 2008 include seven from 2007 (eight if Alex Grig is considered just a new name for Salex). The GOAM's efforts to improve tax compliance by its

oligarchs appears to remain selective and inconsistent, with those most in favor (or having greatest influence) with the current government under the least pressure to improve their compliance. The crackdown on Khachatur Sukiasian's companies also appears to have deprived the GOAM of several million dollars in tax revenues.

¶16. (SBU) Although the GOAM downplays the significance of the impact of the world financial crisis on the economy of Armenia, it is obvious that some industries, especially in the real sector, have already suffered considerably. The negative impact will be more obvious in 2009 if the downturn continues. The GOAM has already sought to delay over USD 300 million in spending due to reduced tax collections (to be reported septel). The 2009 state budget, produced at a more optimistic time, was predicated on 9.2 percent GDP growth and a 16.1 percent increase in tax collections, both assumptions rendered unrealistic under these circumstances. END COMMENT.

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